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STATE FOR WHA/CAR (RANDALL BUDDEN)
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TREASURY FOR A FAIBISHENKO

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TAGS: [ECON](#) [EFIN](#) [PREL](#) [PGOV](#) [PINR](#) [SOCI](#) [IDB](#) [IMF](#) [JM](#) [XL](#)
SUBJECT: JAMAICA: DEBT AND ANEMIC GROWTH ENCUMBER
BOTH A STABLE ECONOMY AND A POPULIST PRIME MINISTER

Summary and Comment

1.(U) JamaicaQs foreign currency bond rating and economic outlook remain stable, but the countryQs finances are among the worldQs weakest with a debt-to-GDP ratio of 136 percent, while growth remains anemic. Fiscal consolidations, and more specifically debt consolidation, remain major hurdle for improvement of the credit rating. The Inter-American Development Bank (IDB) has announced a hold on most new capital loans for the next three years, saying the Government has not invested the resources promised in projects already underway.

2.(SBU) In protest over populist Prime Minister Portia Simpson-MillerQs plans to use money from the National Housing Trust and National Insurance Scheme to provide low interest loans to small businesses, respected Finance Minister Omar Davies recently threatened to resign. The Prime Minister may not yet have full control of her Cabinet: to confirm her own clear mandate, and then make the personnel changes necessary to pursue populist policies to satisfy an expectant populatio she might prefer to call elections-- which must be held by October, 2007Q sooner rather than later.
End Summary and Comment.

Fitch, MoodyQs, and IDB Issue Reports on Jamaica

3.(U) MoodyQs has reaffirmed JamaicaQs B1 foreign currency bond rating and stable outlook, but warned that the countryQs finances were among t weakest in the world in terms of debt-to-GDP ratio. The rating remains several notches below the investment grade of Baaa3, reflecting the GOJ limited options to respond to shocks without impacting the fiscal accou and the debt dynamics. In fact, MoodyQs said that if its ratings were on purely quantitative issues, the ratings would have been downgraded a the countryQs debt ratio (136 percent) is not consistent with its B1 ra even the entire B1 to C rating category. However, in assigning its lat ratings, MoodyQs took into consideration the countryQs commitment to fiscal discipline and strong willingness to service its debt. Accordin MoodyQs, "ratings remain supported by the government's commitment to return to a balanced budget position, by a constitutional provision mandating debt service payments as the first expenditure priority, by a proven ability to face severe shocks and a strong willingness to pay." is consistent with a previous report from Standard and PoorQs.

4.(U) Fitch Rating Agency also has assigned a B+ rating to the country suggesting that the outlook is stable and the prospects for debt repaym are average. Like those of MoodyQs and S&P, this rating was underpinne by JamaicaQs long unblemished tradition of timely repayments. In its August 30th report, Shelly Shetty, a Senior Director in Fitch's soverei group, said "Jamaica's ratings are supported by an impressive commitmen

of authorities to maintain fiscal consolidation to reduce public debt d the various external shocks the island has faced in recent years." She also pointed to the societyQs willingness to shoulder the burden of fis adjustment as well as the countryQs focus on tax collection through improved tax administration. Fitch noted that the high public debt at percent of GDP, which is twice the QBQ median, and the attendant heavy financing needs, are the major problems preventing Jamaica from getting higher debt rating which would correspond to the lower cost of its debt 5.(U) Fitch pointed out that one way out of the debt trap is economic growth, but the agency does not foresee the country growing at more tha an anemic rate. "Jamaica's growth performance is among the worst in th 'B' category, with its 2001-2005 average growth of 1.4 per cent compari poorly with the 4.6 per cent 'B' median. Jamaica's growth performance hampered by crowding out from the large fiscal deficits, a heavy public debt burden, a significant vulnerability to external and weather relate shocks, volatility in the exchange and interest rates, and a wide range other structural constraints, such as low labor productivity, and a hig crime rate." On the positive side, Fitch suggested that growth rates c improve in 2006-2008 because of the expected foreign direct investment in the country. That said, fiscal consolidations, and more specifically consolidation, remain the major hurdle for Jamaica to improve its credi rating. According to Fitch, a significant reduction in the public deb burden may be required before Jamaica could move up the rating scale.

IDB Puts New Capital Lending on Hold

6.(U) Following closely on the heels of the above reports, on August 3 IDB announced a hold on most new capital loans for the next three years saying the country has not invested the resources promised in projects already underway. Private sector, disaster recovery, and policy development programs will not be affected. Of the USD 77 million the GOJ should have invested in 2004/05 on IDB-financed jobs, only USD 19.2 million was provided. The IDB noted the GOJQs increased reliance on commercially sourced domestic and external debt instead of its cheap

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development funds, a point constantly raised by the Opposition JLP. Th bank has not totally shut the door on loans to Jamaica, saying that "sh the fiscal situation improve sufficiently to allow for further investme borrowing during this Strategy period", it would "leave open the possibility of preparing new investment loans, if requested by Government." (Comment: Jamaica could be slow in sourcing funds from the IDB because of the increased scrutiny and, to a lesser extent, conditionalities involved in comparison to commercial borrowing. Recal that the Patterson administration pulled out of the IMF for similar rea Also, because of the debt trap, the country has had real difficulty fin the matching capital for counterpart funding. End Comment.)

Reduction in Interest Rates

7.(U) After months of being muted by jitters in the foreign exchange market, the BOJ has announced a 0.3 percentage point reduction in interest rates. The BOJ has attributed the reduction to the positive t economic news and the prospects for improved performance. The bank is particularly upbeat about the moderation in inflation and the return to stability in the foreign exchange market on the back of increased inflo from remittances and tourism. The increased inflows have pushed the stock of NIR to USD 2.2 billion, well above program.

8.(SBU) The GOJ owes pension fund managers billions of dollars due to the practice of withholding taxes which should have been refunded. In fact, the significant performance in tax revenues relative to program f the fiscal year to date is largely due to this practice. However, Mana the Fiscal Policy Unit at the Ministry of Finance told emboffs that it well known that the GOJ would be settling the backlog this fiscal year. is being suggested that the issue was blown out of proportion by a majo stakeholder who was paid a visit by the tax authorities to settle a tax

Disagreement Between Prime Minister & Finance Minister

9.(SBU) Apparently there is truth to the rumor that Finance and Planni Minister Omar Davies had threatened to resign from the post during the Cabinet meeting of August 28. Davies is said to have had a disagree

with Prime Minister Simpson-Miller over the use of money from the National Housing Trust and the National Insurance Scheme. Simpson-Miller, who has signaled her intention to use the funds to provide low interest rate loans to small businesses, wants significant changes to the current economic model. The populist Prime Minister has been alluding to the need to not only balance the budget, but also to balance lives. However, Davies, who has developed quite a reputation internationally for smooth handling of the country's finances, is unwilling to undertake changes which could have serious economic and financial ramifications; he is said to have stood firm in his disagreement, even as Simpson-Miller reminded him of who was Prime Minister. Davies apparently got his way, if only temporarily, when other cabinet members, fearing the likely fall (economic and political) from his resignation, persuaded the Prime Minister to keep him on. It thus would appear that Davies, after hesitating to accept Simpson-Miller's demands not to introduce a tax package during the April budget presentations, has bounced back in the power struggle.

10.(SBU) Comment: Simpson-Miller may not yet have full control of her Cabinet. She, Davies, and Security Minister Peter Phillips were all strong contenders for leadership of the ruling People's National Party when former Prime Minister P.J. Patterson stepped down; all three still wield significant power. In order to confirm her own clear mandate and then make the personnel changes necessary to pursue populist policies to satisfy an expectant population, Simpson-Miller might prefer to call elections (which must be held by October 2007) earlier rather than late. Dr. Rosalee Hamilton appears to be the preferred replacement for Davies while she would prefer the job of Central Bank Governor, indications are she might end up at Finance. The name of former Member of Parliament, State Minister, and financier Peter Bunting also has been floated; however his chances could be diminished by close association with Davies. End Comment. HEG